

COMPUTER PRACTICE

- Step 1. Select the *Vendors* menu and then select **Enter Bills**. Alternatively, click **Enter Bills** on the *Vendor* section of the *Home* page.
- Step 2. Click **Previous** on the *Enter Bills* window to display Bill #4441.
- Step 3. Select the **Expenses** tab to record a \$10.00 overcharge from the Vendor. Use the **Cost of Goods Sold** account and the **Overhead** class to track the overcharge. Alternately, you could record the overcharge to a *Current Asset* account call **Due from Vendors** so that the error does not affect the Profit & Loss statement.
- Step 4. Click **Recalculate** to update the *Amount Due* field (see Figure 8-29). (Note that if you Tab into the next line, a negative \$10 will appear. You will have to clear that amount in order to properly recalculate the Amount Due.)
- Step 5. Click **Save & Close**. Click **Yes** on the *Recording Transaction* message window.

Since the *Bill* in Figure 8-29 is \$10.00 too much, contact the Vendor to discuss the overage on the *Bill*. The Vendor will either issue you a credit, or if you have already paid the *Bill*, send you a refund check. The Vendor may also apply the overpayment to your account to be applied to a future bill.

Depending upon the Vendor's action, do one of the following:

- If the Vendor refunds your money, add the refund directly onto your next deposit. Code the deposit to the *Cost of Goods Sold* account and the *Overhead* class (the account and class you used when you recorded the overage on the bill).
- If the Vendor sends you a credit memo, enter a **Bill Credit**. Code the *Bill Credit* to the *Cost of Goods Sold* account and *Overhead* class (the account and class you used when you recorded the overage on the *Bill*).

The screenshot shows the 'Enter Bills' window for Vendor 'Ace Supply'. The 'Expenses' tab is active, showing a \$10.00 overcharge recorded against the 'Cost of Goods Sold' account and 'Overhead' class. The 'Amount Due' field is \$85.75. A callout box states: 'Instead of Cost of Goods Sold, you could use an asset account called Due from Vendors that does not affect the company's Profit & Loss.'

Account	Amount	Memo	Customer	Billable?	Class
50000 - Cost of Goods Sold	10.00	Record Overcharge			Overhead

Recent Transactions:

Date	Description	Amount
04/07/15 Bill		85.75
04/07/15 Bill		85.75
01/20/15 Bill Pmt - Check		123.48

Figure 8-29 Record a Vendor overcharge in the *Expenses* tab

Note:

Always use the same account when you record the overcharge and the refund or credit. In the example above, the *Expenses* tab of the *Bill* for Ace Supply increases *Cost of Goods Sold* by \$10.00 and the deposit or credit from the Vendor reduces *Cost of Goods Sold* by the same amount. Alternatively, you could use an *Other Current Asset* account called *Due from Vendors*, as discussed above.

Adjusting Inventory

QuickBooks automatically adjusts Inventory each time you purchase or sell *Inventory* items. However, it may be necessary to manually adjust Inventory after a physical count of your Inventory, or in case of an increase or decrease in the value of your Inventory on hand. For example, you might decrease the value of your Inventory if it has lost value due to new technology trends.

Adjusting the Quantity of Inventory on Hand

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- Step 1. Select the *Vendors* menu, select **Inventory Activities**, and then select **Adjust Quantity/Value on Hand**. Alternatively, click the **Inventory Activities** icon on the *Home* page and select **Adjust Quantity/Value on Hand** from the menu. QuickBooks displays the window shown in Figure 8-31.
- Step 2. If you need to, enter **Quantity** from the *Adjustment Type* field and press **Tab**.
- Step 3. Enter **04/30/2015** in the *Adjustment Date* field and press **Tab**.
- Step 4. Enter **Inventory Variance** in the *Adjustment Account* field and press **Tab**.

QuickBooks adjusts the account you enter into the *Adjustment Account* field to offset the change in the *Inventory Asset* account balance. In this example, we are using *Inventory Variance*, a *Cost of Goods Sold* account, but you can use whichever account is best for your records.

- Step 5. The *Income or Expense expected* dialog box displays. Check the box next to *Do not display this message in the future* and click **OK** (see Figure 8-30).

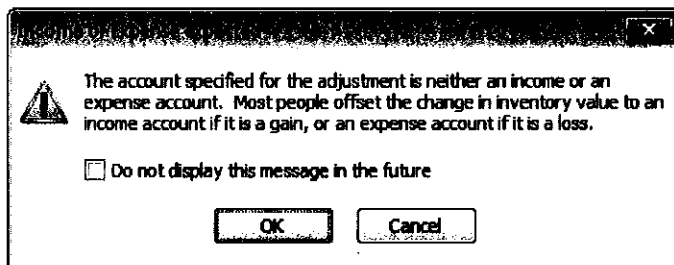


Figure 8-30 Income or Expense expected dialog box

Note:

The dialog box displays because QuickBooks is looking for an expense account to record the offsetting decrease in the Inventory asset. Although the entry can be made to an expense account (decrease in Inventory) or an income account (increase in Inventory), many people find that offsetting Inventory variances to the *Cost of Goods Sold* account (for either Inventory increases or decreases) more accurately reflects the recording of variances.

Step 6. Enter **2015-1** in the *Ref. No.* field and press **Tab** twice to skip the *Customer: Job* field.

Adjust Quantity/Value on Hand

Previous Next Attach

Adjustment Type: Quantity
 Adjustment Date: 04/30/2015
 Adjustment Account: 54000 - Inventory Varia...
 Reference No.: 2015-1
 Customer: Job
 Class: Overhead

Find & Select Items...

Item	Description	Qty on Hand	New Quantity	Qty Difference
Frame 5x7	Picture Frame - 5x7 in. Metal ...	30	28	-2

Memo: Adjust Inventory for physical counts
 Total Value of Adjustment: -4.30
 Number of Item Adjustments: 1

Item Info After Adjustment

Quantity on Hand: 28
 Avg Cost per Item: 2.15
 Value: 60.20

Save & Close Save & New Clear

Figure 8-31 Adjust Quantity/Value on Hand window

- Step 7. Enter **Overhead** in the *Class* field and press **Tab**.
- Step 8. Enter **Frame 5x7** in the *Item* column and press **Tab**.
- Step 9. Enter **28** in the *New Quantity* column and press **Tab**.

Notice that QuickBooks calculates the quantity difference (-2) in the *Qty Difference* column. Also, notice that QuickBooks automatically calculates the *Total Value of Adjustment* in the bottom right corner. QuickBooks Pro and Premier use the *average cost method* to calculate this value. Look at the *Inventory Valuation Detail Report* later in this chapter to see how the average cost changes each time you adjust Inventory in this way.

- Step 10. Enter **Adjust Inventory for physical counts** in the *Memo* field.
- Step 11. To save the adjustment, click **Save & New**.

Adjusting the Value of Inventory

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With the Adjust Quantity/Value on Hand window displayed, follow these steps to record a *value* adjustment to your inventory.

- Step 1. Enter **Quantity and Total Value** from the *Adjustment Type* field and press **Tab**.

Previous Next Attach

Adjustment Type: Quantity and Total Value

Adjustment Date: 04/30/2015

Adjustment Account: 54000 - Inventory Variance

Reference No.: 2015-2

Customer: Job

Class: Overhead

Find & Select Items

Item	Description	Qty on Hand	New Quantity	Qty Difference	New Value
Frame 8x10	Picture Frame - 8x10 inch Metal Frame	30			135.00

Memo:

Total Value of Adjustment: -15.00

Number of Item Adjustments: 1

Item Info After Adjustment

Quantity on Hand: 30

Avg Cost per Item: 4.50

Value: 135.00

Save & Close Save & New Clear

Figure 8-32 Click on the Value Adjustment box to change inventory value

- Step 2. Confirm that **04/30/2015** is already selected in the *Adjustment Date* field. Press **Tab**.
- Step 3. Confirm that **Inventory Variance** is already selected in the *Adjustment Account* field.
- Step 4. Leave **2015-2** in the *Ref. No.* field.
- Step 5. Leave the *Customer:Job* field blank.
- Step 6. Enter **Overhead** in the *Class* field.
- Step 7. Enter **Frame 8x10** in the *Item* column. Press **Tab** three times.
- Step 8. Enter **135.00** in the *New Value* column on the **Frame 8x10** line and press **Tab**. Notice that QuickBooks calculates the Total Value of Adjustment.
- Step 9. Enter **Adjust Inventory Value of Frame 8x10** in the *Memo* field.
- Step 10. Click **Save & Close** to save the adjustment.

QuickBooks will post the amount of this adjustment (\$15.00) to the *General Ledger*. Since this adjustment lowers the value of the **Frame 8x10** item, it reduces the average cost of each unit on hand. Therefore, the next time you sell a **Frame 8x10**, QuickBooks will transfer the new (lower) average cost out of *Inventory* and into *Cost of Goods Sold*.

The accounting behind the scenes:

Inventory value adjustments always affect your *Inventory Asset* account. If the *Total Value of Adjustment* is a positive number, the *Inventory* account increases (debits) by that amount and the *Adjustment* account decreases (credits). If the *Total Value of Adjustment* is a negative number, the debits and the credits are reversed.

Setting up Group Items

Sometimes, you sell items in bundles. For example, every time Academy Photography sells three hours of services for retouching, it also includes a 5x7 metal frame. Academy

Photography uses *Group* Items to bundle products and/or services on sales forms. You may also purchase items in a bundle from a Vendor, so setting up a *Group* Item may make the purchasing process easier as well.

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- Step 1. Click **Items & Services** on the *Company* section of the *Home* page, or select the *Lists* menu and then select **Item List**.
- Step 2. Select the **Item** button at the bottom of the *Item List* window and select **New**. Alternatively, press **Ctrl+N**.
- Step 3. Select **Group** from the *Type* drop-down list and press **Tab**.
- Step 4. Enter **5x7 Retouching** in the *Group Name/Number* field and press **Tab** to advance to the *Description* field.
- Step 5. Enter **Retouching photograph and placing in a 5x7 metal frame** in the *Description* field and press **Tab**.
- Step 6. Click the **Print items in group** box (see Figure 8-33). Press **Tab**.
- Step 7. On the first line at the bottom of the window, select **Frame 5x7** from the *Item* drop-down list. Press **Tab**.
- Step 8. Enter **1** in the *Qty* column and press **Tab**. The *Qty* column indicates how many of each item is included in the *Group*.
- Step 9. On the second line at the bottom of the window, select **Retouching** from the *Item* drop-down list. Press **Tab**.
- Step 10. Enter **3** in the *Qty* column. Press **Tab**.

Type: Group Use to quickly enter a group of individual items on an invoice. [What's the difference between a Group and an Inventory Assembly?](#)

Group Name/Number: 5x7 Retouching

Description: Retouching photograph and placing in a 5x7 metal frame

☒ Print items in group

Item	Description	Qty
Frame 5x7	Picture Frame - 5x7 in. Metal Frame	1
Retouching	Photo retouching services	3

☐ Item is inactive

Buttons: OK, Cancel, Next, Previous, Custom Fields, Settings

Callout 1: Click this box to have your printed invoices show the detail of each item in the group. The screen invoice will always show each individual item in the group.

Callout 2: List each item that is included with this Group. At the right, indicate the quantities of each item. This is like defining a bill of materials for this Group item.

Figure 8-33 Specify Items in the group and whether to print Items on the sales form

Note:

The *New Item* window in Figure 8-33 does not include a *Sales Price* field. When you enter a *Group* Item on sales forms, QuickBooks uses the sales prices of the items within the *Group* to calculate a total price for the *Group*. You can override the price of each item within the *Group* directly on the sales form.

In addition, the printed sales form will show the *Group* Item detail only if the **Print items in group** box is checked. However, you will always see the items in this *Group* on the screen version of the sales form.

Step 11. Click **OK** to save the *Group Item* and then close the *Item List* window.

Inventory Assemblies

QuickBooks Premier includes an *Item Type* called *Inventory Assemblies* which is quite useful if you want to track individual *Items* and then group them into an assembly. *Inventory Assembly Items* help to track Inventory that is created from raw materials that are themselves tracked as *Items*.

The feature is similar to *Groups*, but it allows you to combine several *Inventory Items* into a single *Item*. They are different from *Group Items* because the parts are removed from *Inventory* as soon as an *Inventory Assembly Item* is assembled.

An *Inventory Assembly* is defined by specifying which components (must be *Inventory Part*, *Inventory Assembly*, *Non-inventory Part*, *Service*, or *Other Charge* type items) are needed to produce it. Essentially, you define the *Bill of Materials* for each *Inventory Assembly Item* when you set up the item.

Inventory Reports

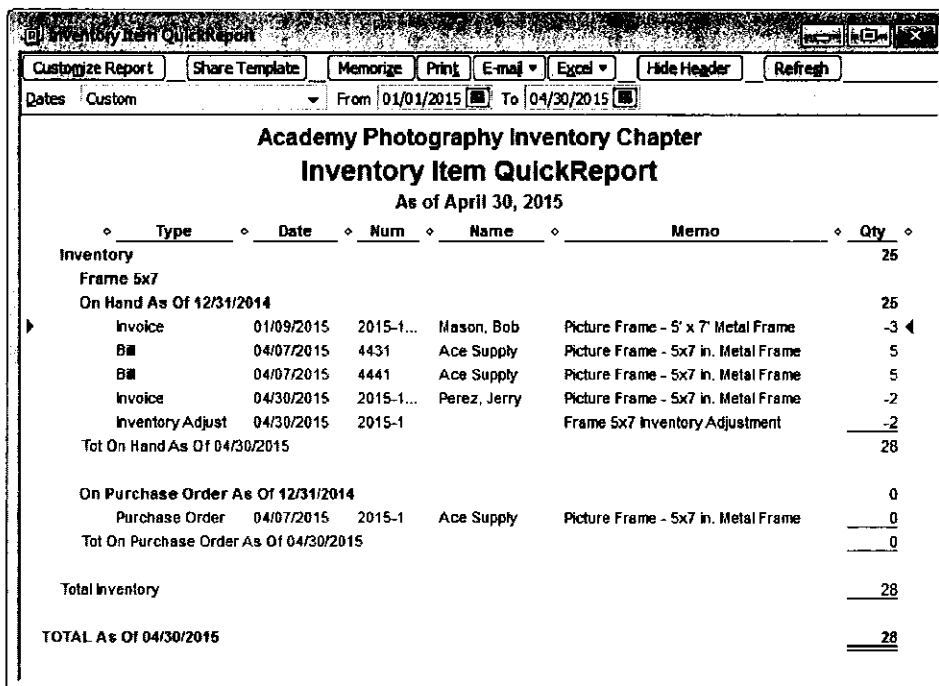
QuickBooks provides several reports for Inventory analysis, all of which are customizable in ways similar to other reports.

For daily management of Inventory, use the *Stock Status by Item Report*, the *Stock Status by Vendor Report*, or the *Inventory Valuation Summary Report*. These reports give a quick overview of Inventory counts, Inventory values, and pending orders.

For detailed research about transactions involving Inventory, use the *Inventory Item QuickReport* or the *Inventory Valuation Detail Report*.

Inventory Item QuickReport

The *Inventory Item QuickReport* is useful for seeing all transactions involving an *Inventory Item*.



Type	Date	Num	Name	Memo	Qty
Inventory					25
Frame 5x7					
On Hand As Of 12/31/2014					25
Invoice	01/09/2015	2015-1...	Mason, Bob	Picture Frame - 5' x 7' Metal Frame	-3
Bill	04/07/2015	4431	Ace Supply	Picture Frame - 5x7 in. Metal Frame	5
Bill	04/07/2015	4441	Ace Supply	Picture Frame - 5x7 in. Metal Frame	5
Invoice	04/30/2015	2015-1...	Perez, Jerry	Picture Frame - 5x7 in. Metal Frame	-2
Inventory Adjust	04/30/2015	2015-1		Frame 5x7 Inventory Adjustment	-2
Tot On Hand As Of 04/30/2015					28
On Purchase Order As Of 12/31/2014					0
Purchase Order	04/07/2015	2015-1	Ace Supply	Picture Frame - 5x7 in. Metal Frame	0
Tot On Purchase Order As Of 04/30/2015					0
Total Inventory					28
TOTAL As Of 04/30/2015					28

Figure 8-34 Inventory Item QuickReport

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- Step 1. From the *Home* page, click the **Inventory Activities** icon and choose **Inventory Center**.
- Step 2. Click on the **Frame 5x7** Item to select it in the left side of the *Inventory Center*.
- Step 3. Click the **QuickReport** link from the right side of the *Inventory Center*.
- Step 4. Set the *From* date to **01/01/2015** and the *To* date to **04/30/2015** and press **Tab**. The *QuickReport* for the **Frame 5x7** displays (see Figure 8-34).
- Step 5. Close the report by clicking the close box (X) in the upper right corner of the window. Leave the *Inventory Center* open.

Inventory Stock Status by Item Report

The *Stock Status by Item Report* is useful for getting a quick snapshot of each Inventory part, as well as the number of units on hand and on order. In addition, this report gives you information about your Inventory turnover, showing a column for sales per week.

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- Step 1. Click the **Stock Status** link on the right side of the *Inventory Center*. Alternatively, select the *Reports* menu, select **Inventory**, and then select **Inventory Stock Status by Item**.
- Step 2. Set the *From* date to **01/01/2015** and the *To* date to **04/30/2015** and press **Tab**. The *Inventory Stock Status by Item* report displays (see Figure 8-35).

Academy Photography Inventory Chapter										
Inventory Stock Status by Item										
January through April 2015										
Inventory	Item Description	Pref Vendor	Reorder Pt	On Hand	On Sales Order	Available	Order	On PO	Next Deliv	Sales/Week
Camera SR32	Supra Digital Came...			9	0	9	0			0.1
Case	Camera and Lens ...			24	0	24	0			0.1
Frame 5x7	Picture Frame - 5x...		25	28	0	28	0			0.3
Frame 8x10	Picture Frame - 8x...	Ace Supply	20	30	0	30	0			0
Lens	Supra Zoom Lens			7	0	7	0			0.1

Figure 8-35 Inventory Stock Status by Item report

- Step 3. To close the report, click the close box (X) at the top right corner of the window. Click **No** if you are prompted to memorize the report.

Inventory Stock Status by Vendor Report

The *Stock Status by Vendor Report* gives you information about your Inventory parts, including how many are on hand, and how many are on order. This *Report* is sorted by the *Preferred Vendor* field in the item.

COMPUTER PRACTICE

- Step 1. Select the **Reports** menu, select **Inventory**, and then select **Inventory Stock Status by Vendor**.
- Step 2. Set the *From* date to **01/01/2015** and the *To* date to **04/30/2015** and press **Tab**. The *Inventory Stock Status by Vendor Report* displays (see Figure 8-36).

Item Description	Reorder Pt	On Hand	On Sales Order	Available	Order	On PO	Next Deliv	Sales/Week
Ace Supply								
Frame 8x10 Picture Frame - 8x10 in. Metal	20	30	0	30	0	0	0	4
Total Ace Supply		30	0	30	0	0	0	
No Vendor								
Camera SR32 Supra Digital Camera SR32	9	0	9	0	0	0	0.1	
Case Camera and Lens High Impact	24	0	24	0	0	0	0.1	
Frame 5x7 Picture Frame - 5x7 in. Metal F...	25	28	0	28	0	0	0.3	
Lens Supra Zoom Lens	7	0	7	0	0	0	0.1	
Total No Vendor		68	0	68	0	0	0.8	

Figure 8-36 Inventory Stock Status by Vendor Report

Step 3. To close the report, click the close box (X) at the top right corner of the window. Click No if you are prompted to memorize the report.

Inventory Valuation Reports

The *Inventory Valuation Summary Report* gives you information about the value of your Inventory items on a certain date. This report shows each item in Inventory, the quantity on hand, the average cost, and the retail value of each item.

COMPUTER PRACTICE

Step 1. Click the **Inventory Valuation Summary** link on the right side of the *Inventory Center*. Alternatively, select the **Reports** menu, select **Inventory**, and then select **Inventory Valuation Summary**.

Step 2. Set the *Date* field to **04/30/2015** and press **Tab** (see Figure 8-37).

Item Description	On Hand	Avg Cost	Asset Value	% of Tot Asset	Sales Price	Retail Value	% of Tot Retail
Inventory							
Camera SR32 Supra Digital Came...	9	450.00	4,050.00	81.2%	695.99	6,263.91	57.3%
Case Camera and Lens ...	24	45.00	1,080.00	18.3%	79.99	1,919.76	17.6%
Frame 5x7 Picture Frame - 5x...	28	2.15	60.20	0.9%	5.99	167.72	1.5%
Frame 8x10 Picture Frame - 8x...	30	4.50	135.00	2.0%	9.99	299.70	2.7%
Lens Supra Zoom Lens	7	184.99	1,294.93	18.6%	324.99	2,274.93	20.8%
Total Inventory	98		6,620.13	100.0%		10,826.02	100.0%
TOTAL	98		6,620.13	100.0%		10,826.02	100.0%

Figure 8-37 Inventory Valuation Summary report

Step 3. To close the report, click the close box (X) at the top right corner of the window. Click No if you are prompted to memorize the report.

Review Questions

Select the best answer(s) for each of the following:

- If your Vendor ships more than you ordered on a *Purchase Order* (an overshipment), which of the following actions would not be appropriate?
 - You could refuse the extra shipment and send it back to the Vendor without recording anything in QuickBooks.
 - You could receive the extra shipment using an *Inventory Adjustment* transaction.
 - You could receive the extra shipment into Inventory and keep it (and pay for it).
 - You could receive the extra shipment into Inventory, and then send it back and record a *Bill Credit* in QuickBooks.

2. When setting up a *Group Item*, where do you enter the sales price?
 - a) Enter the price in the *Sales Price* field.
 - b) Enter the price in the *Item Pricing* list.
 - c) The *Group Item* does not include a *Sales Price* field.
 - d) Enter the price in the *Set Price* window.
3. To activate QuickBooks Inventory:
 - a) Select the **File** menu and then select **Preferences**.
 - b) Select **Purchases - Vendors**.
 - c) Consult your accountant to determine the proper Inventory valuation method.
 - d) Select the **Edit** menu, then select **Preferences**, then click on the **Items & Inventory Preference** and then click the **Company Preferences** tab. Finally, click on the option that activates Inventory.
4. The Inventory asset account:
 - a) Tracks open *Purchase Orders* of Inventory items.
 - b) Decreases when Inventory is purchased.
 - c) Increases when Inventory is sold.
 - d) Increases when Inventory is purchased.
5. In QuickBooks Pro and Premier, Inventory can do all of the following except:
 - a) Provide reports on the status of each item in Inventory including how many are on hand and how many are on order.
 - b) Use the LIFO or FIFO method of determining Inventory cost.
 - c) Calculate gross profit on Inventory sold.
 - d) Track the open *Purchase Orders* for every Inventory item.

Inventory Problem 1

APPLYING YOUR KNOWLEDGE

Restore the **Inventory-12Problem1.QBM** file.

1. Create new **Inventory Items** in the Item List with the following data.

Item Type	Inventory Part
Item Name	Frame 4x6 Black
Purchase Description	Picture Frame - 4x6 Black
Cost	\$4.95
COGS Account	Cost of Goods Sold
Preferred Vendor	Leave blank
Sales Description	Picture Frame - 4x6 Black
Price	\$9.99
Tax Code	Tax
Income Account	Sales
Asset Account	Inventory Asset
Reorder Point	25
Qty on Hand	Leave zero
Total Value	Leave zero
As of	Leave current date

Item Type	Inventory Part
Item Name	Frame 4x6 White
Purchase Description	Picture Frame - 4x6 White
Cost	\$4.49
COGS Account	Cost of Goods Sold
Preferred Vendor	Leave blank
Sales Description	Picture Frame - 4x6 White
Price	\$8.99
Tax Code	Tax
Income Account	Sales
Asset Account	Inventory Asset
Reorder Point	25
Qty on Hand	Leave zero
Total Value	Leave zero
As of	Leave current date

2. Create **Purchase Order** #2015-1 dated 04/06/2015 to Ace Supply using the *Walnut Creek Class* for 10-Frame 5x7, 40-Frame 4x6 Black, and 40-Frame 4x6 White. Leave the *Ship To* drop-down field at the top blank. The total *PO* amount is \$399.10. Print the *Purchase Order* on blank paper.
3. Record the transactions below. On these transactions, unless you're told differently, keep all defaults on transactions for *Date*, prices, and *Sales Tax*.
 - April 10, 2015 Create an **Item Receipt** for 10-Frame 5x7, 15-Frame 4x6 Black, and 20-Frame 4x6 White from Ace Supply against PO #2015-1. The product came without a bill, but the packing slip number was #3883. The total *Item Receipt* amount is \$185.55.
 - April 13, 2015 Create an **Item Receipt** for the remaining items from Ace Supply against PO #2015-1. The product came without a bill, but the packing slip number was #7622. The total *Item Receipt* amount is \$213.55.
 - April 17, 2015 Create **Invoice** #2015-106 to Jerry Perez for 5-Frame 5x7 (use list price). Use the *Walnut Creek Class*. The total *Invoice* amount is \$32.42.
 - April 20, 2015 Received bill for *Item Receipt* #3883 from Ace Supply. Additional \$8.50 delivery charges were added to the bill. Use the *Expenses* tab on the bill to record delivery charges (coded to *Postage and Delivery* expense) and allocate the cost to the *Walnut Creek Class*. The total *Bill* amount is \$194.05. (*Hint: Use the Recalculate button if necessary to adjust the Amount Due.*)
 - April 20, 2015 Received bill for *Item Receipt* #7622 from Ace Supply. The total *Bill* amount is \$213.55.
 - April 30, 2015 Enter an **Inventory Adjustment** for a Frame 5x7 item. Use the *Inventory Variance* account and the *Walnut Creek class* to record the adjustment. *Inventory Adjustment Reference* # 2015-101. *Quantity on hand* is 26. The total *Value of Adjustment* is -\$2.15.

4. Create and print the following reports:
- a) **Frame 5x7 Item QuickReport** with the *Dates* field set to **All**
 - b) **Inventory Stock Status by Item** for 01/01/2015 through 04/30/2015
 - c) **Inventory Valuation Summary** as of 04/30/2015